

# **REGULAR MEETING**

## **SOUTH DAKOTA RETIREMENT SYSTEM**

**December 8, 2011**

The Board of Trustees of the South Dakota Retirement System held its regular meeting on December 8, 2011. The meeting began at 2:30 p.m. via conference call/webinar at the SDRS office, Pierre, South Dakota.

Elmer Brinkman, Chair  
Karl Alberts  
Steve Caron  
Jason Dilges  
Laurie Gustafson  
James Hansen  
James Johns  
Louise Loban  
Darwin Longieliere  
Bonnie Mehlbrech  
Dave Merrill  
Kent Osborne  
K. J. Peterson  
Eric Stroeder  
Sandy Zinter  
Justice Steven Zinter  
Matt Clark, Ex Officio

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### **OTHERS IN ATTENDANCE:**

John Aesoph, KPMG  
Douglas Fiddler, Buck Consultants  
Bill Koupal, Koupal Communications  
June Larson, Nationwide  
Matthew Maiers, KPMG  
Annie Mehlhaff, LRC  
Bob Mercer, Media  
Janice Minder, BOR  
Paul Schrader, Consultant  
Dave Slishinsky, Buck Consultants  
Rob Wylie  
Travis Almond  
Susan Jahraus

Michelle Mikkelsen  
Jane Roberts  
Damian Prunty  
Dawn Smith  
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

**AGENDA ITEM 2**  
**APPROVAL OF SEPTEMBER 7, 2011, MINUTES**

**Board Action**

IT WAS MOVED BY MS. LOBAN, SECONDED BY MR. MERRILL, TO APPROVE THE MINUTES OF THE SEPTEMBER 7, 2011, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES AND ONE ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS; BRINKMAN; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

THOSE ABSENT AND NOT VOTING: CARON

**AGENDA ITEM 3**  
**FINANCIAL AUDIT FOR PERIOD ENDING JUNE 30, 2011**

**Summary of Presentation**

Mr. John Aesoph, of KPMG, Inc., presented the external financial audit of SDRS, the SDRS Supplemental Retirement Plan (SRP) and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2011.

Mr. Aesoph stated that KPMG found no material weaknesses in the review of SDRS's financial statements and internal accounting controls.

**Board Action**

IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. GUSTAFSON, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2011 AS PRESENTED BY MR. AESOPH ON BEHALF OF KPMG. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 16 AYES.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

**AGENDA ITEM 4**  
**2012 INVESTMENT UPDATE**

**Summary of Discussion**

Mr. Matt Clark, State Investment Officer, informed the Board that as of December 7, 2011, the SDRS Trust Fund was down 5.2 percent.

**Board Action**

No action was necessary.

**AGENDA ITEM 5**  
**FY2012 PROJECTED FUNDED STATUS REPORT**

**Summary of Discussion**

Mr. Fiddler stated that as of June 30, 2011, the SDRS market value funded ratio was at 103 percent and the actuarial value funded ratio was 96 percent.

If the investment return for the fiscal year ending June 30, 2012, remains at negative 5 percent, advised Mr. Fiddler, the market value funded ratio would decrease to 91 percent and the actuarial value funded ratio would remain at 96 percent. With a 0 percent return, the market value funded ratio would decrease to 96 percent, while the actuarial value funded ratio would remain at 96 percent.

With a negative 5 percent return, stated Mr. Fiddler, the minimum annual investment return required to eliminate the remaining deficit over the next five, 10, 20 and 30 years would be 9.2 percent, 8.5 percent, 8.2 percent and 8.1 percent, respectively, all above the 7.75 percent interest rate assumption.

Mr. Fiddler advised that the projected funded status of the Cement Plant Retirement Plan as of June 30, 2012, with a negative 5 percent return would be 79 percent and there would be \$11.6M in unfunded actuarial accrued liability.

**Board Action**

No action was necessary.

**AGENDA ITEM 6**  
**FY2013 GOVERNOR'S RECOMMENDED BUDGET**

**Summary of Discussion**

Ms. Jane Roberts, SDRS Chief Financial Officer, reported on the Governor's Recommended Budget for SDRS. She advised that the Governor recommended the increases that were requested for contractual services in audit and actuarial.

The Governor did not recommend the request for the addition in the travel budget, nor did he recommend the request for additional postage expenditure authority. Ms. Roberts stated that staff will continue to explore different, innovative ways of delivering information to the SDRS membership.

Ms. Roberts noted that the Governor did recommend an additional \$9,848 to the computer services budget that had not originally been requested, but will be used to shore up that expenditure line as BIT costs are expected to increase.

The Governor's recommendation also included expenditure authority for a salary package.

### **Board Action**

No action was necessary.

## **AGENDA ITEM 7** **FINALIZE LEGISLATIVE CONSIDERATIONS**

### **Summary of Discussion**

Ms. Jacque Storm, SDRS General Counsel, stated that there were three bills for consideration for the 2012 Legislative Session. The first bill deals with creating a Roth 457 account within the SRP. Ms. Storm advised that government 457 plans may now offer Roth contribution programs. Employees may designate all or part of their contributions to the deferred compensation plan as after-tax Roth contributions. While the employee pays tax on the contributions that go into the plan, withdrawals of contributions and earnings can be tax-free if certain conditions are met.

The legislation, advised Ms. Storm, authorizes the Board to establish a Roth contribution program within the deferred compensation plan and provides that the Board will develop the details in rules in accordance with federal law.

The second bill, stated Ms. Storm, is an Act to allow for the establishment of an alternative benefit enhancement methodology within SDRS. This would provide for the establishment of an alternative methodology for benefit enhancements that would include the mitigation of risk to the system.

The first version included language regarding when the Board would consider implementing this alternative methodology and when it was payable. The revised version, stated Ms. Storm, is written more broadly, including the elimination of the term, performance accounts, and leaves all the details to be determined by the Board by the promulgation of administrative rules. This revised draft would allow the Board to fully explore and develop the methodology for an alternative benefit enhancement.

Ms. Storm stated that the third and final bill is a “clean-up” bill. This bill draft revises the definition of firemen by overstriking the term, municipal. This will add certain state firefighters to the system. For consistency, this draft also removes the term municipal, as it refers to police officer. This is redundant since, by definition, a police officer is employed by a municipality. These changes are in section 1, 3, and 5.

This draft also converts all references in SDCL chapter 3-12 from fireman, policemen, and patrolman to firefighter, police officer, and patrol officer. Ms. Storm noted that two changes were occurring. First the gender specific terms were being replaced and secondly, it is written in the singular tense rather than the plural. These are revisions that the LRC routinely make when revising existing statutes. Similarly the gender specific terms of chairman and vice-chairman, are replaced with the terms, chair and vice chair. These changes are in sections 1, 3, 4, 5, 6, 7, 8, and 12.

Section two of the draft, advised Ms. Storm, clarifies that purchases made pursuant to SDCL 3-12-84.2 which are purchases for prior service credit for which there was no performance of service, i.e., airtime, are not contributory service for purposes of SDCL chapter 3-12.

This draft also corrects two obvious errors where incorrect subdivision numbers are provided. In section 9, SDCL 3-12-62.1 is amended and in section 13, SDCL 3-12-143 is amended. In both cases, stated Ms. Storm, the amendment provides that the correct term in the definition section (SDCL 3-12-47) is referenced.

Section 10 clarifies that money in the SDRS member trust fund may be used to correct overpayments made by employers. Section 11 clarifies that retired members who returned to work between 2004 and 2010 and who remain employed for at least three years, have an option to refund rather receive an additional retirement benefit.

Ms. Storm noted that the draft bill also included an amendment to a statute outside of those specifically governing SDRS. Section 16 clarifies that employer contributions shall be made on reinstatement pay for terminated employees. (SDCL 3-6A-38.2)

Ms. Storm stated that there were changes to the Supplemental Retirement Plan and Special Pay Plan as well. Section 14 adds a definition of the term, plan year, for purposes of the SRP to clarify it's a calendar year ending December 31. The terms are also rearranged to reflect alphabetical order. Section 15 clarifies that if the designated beneficiary has died, the benefits of the SPP shall be paid in the same manner as if there is no beneficiary designated.

Ms. Storm noted that at the September meeting, the Board discussed revising SDCL 3-12-110 to provide consistency for the percentage of accumulated contributions payable to beneficiaries of a non-vested member who dies after termination of employment. Based

on further internal discussion, at this time staff is recommending that this issue be examined further and reviewed for consideration at a later date.

### **Board Action**

#### **ROTH 457**

IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. GUSTAFSON, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION REGARDING THE ROTH 457 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 16 AYES.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

#### **ALTERNATIVE BENEFIT ENHANCEMENT METHODOLOGY**

IT WAS MOVED BY MR. LONGIELIERE, SECONDED BY JUSTICE ZINTER, TO DIRECT STAFF TO MOVE FORWARD WITH PROPOSED LEGISLATION REGARDING THE ESTABLISHMENT OF AN ALTERNATIVE BENEFIT ENHANCEMENT METHODOLOGY. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 15 AYES AND ONE ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

THOSE ABSENT AND NOT VOTING: PETERSON

#### **CLEAN-UP**

IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. LOBAN, TO DIRECT STAFF TO MOVE FORWARD WITH THE PROPOSED CLEAN-UP LEGISLATION. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 16 AYES.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

## **AGENDA ITEM 8** **SUPPLEMENTAL RETIREMENT PLAN** **REQUEST FOR PROPOSALS**

### **Summary of Discussion**

Mr. Damian Prunty, SDRS Director of Operations; and Ms. Susan Jahraus, Internal Audit and Compliance Manager, explained the timeline and process of the upcoming Supplemental Retirement Plan request for proposals.

### **Board Action**

IT WAS MOVED BY MR. LONGIELIERE, SECONDED BY DR. HANSEN, TO APPROVE THE SUPPLEMENTAL RETIRMENT PLAN REQUEST FOR PROPOSALS TIMELINE AND PROCEDURES FOR REVIEW AS PRESENTED BY STAFF. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 16 AYES.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

## **AGENDA ITEM 9** **CONSIDERATION OF POTENTIAL MEMBER ISSUE** **PRO-RATED COLA FOR NEW RETIREES**

### **Summary of Discussion**

Mr. Wylie stated that the Board had received the letter from a member outlining his concerns about the elimination of the pro-rated COLA in the 2010 Legislative Session. As a reminder, this change was made to balance the corrective actions. Since that time, however, staff has received input from employers about the unintended consequences this change is having on the workforce. With the requirement of 12 months of benefits prior to a COLA being paid, large numbers of employees are retiring at the same time.

Prior to adding this item to the Member Issues file, Mr. Wylie stated that his recommendation would be to have staff put together more details and potential costs and provide them to the Board at the April meeting.

### **Board Action**

No Action was necessary.

## **AGENDA ITEM 11** **OLD/NEW BUSINESS**

### **Summary of Discussion**

#### **2012 Legislative Session**

Mr. Wylie stated that the preliminary date for the Appropriations Committee meeting is February 8<sup>th</sup>. As such, staff will try to schedule a Retirement Laws Committee meeting the afternoon of February 7<sup>th</sup>.

#### **Retirement Laws Committee**

Mr. Wylie stated that the feedback related to the joint Board and Retirement Laws Committee meeting was very good. He added that the Board may want to consider similar joint meeting designs in the future.

**Class B Procedures**

Mr. Wylie stated that the Class B Public Safety procedures would be revisited at an upcoming meeting.

**Board Action**

No action was necessary.

**ADJOURNMENT**

IT WAS MOVED BY MS. ZINTER, SECONDED BY MS. GUSTAFSON, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 16 AYES.

THOSE VOTING AYE: ALBERTS; BRINKMAN; CARON; DILGES; GUSTAFSON; HANSEN; JOHNS; LOBAN; LONGIELIERE; MEHLBRECH; MERRILL; OSBORNE; PETERSON; STROEDER; ZINTER, SANDY; ZINTER, STEVE.

Respectfully submitted,

Robert A. Wylie  
Executive Director/Administrator